

Chairman and President's Message

Winspear Business Library
1-18 Business Building
Edmonton, Alta. T6G 2R6

In 1985 your company completed the asset protection measures set out last year and, more importantly, embarked on a new journey of expansion and growth. We believe that aggressive management philosophies and conservative financing techniques can create an exciting and prosperous future for our shareholders by exploiting the opportunities that exist in these volatile economic times.

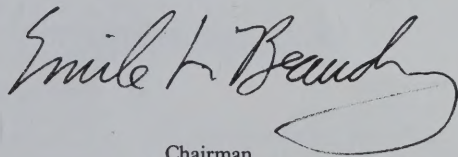
During the year, the company's interest in 6,080 acres near Edson was enhanced through a drilling program under a farmout arrangement with Ocelot Industries Ltd. The Petroleum and Natural Gas Exploration Licenses have been drilled to target depth and converted to Leases with terms of five years. We remain optimistic about the prospects for further activity in the area.

Subsequent to year end the company commenced a new era of growth and expansion. The new direction was unanimously endorsed by shareholders at a special meeting in December that modified our capital structure and changed our corporate name. Matrix will acquire businesses based on undervalued assets, turnaround potential or viable new market opportunities.

In the first quarter of fiscal 1986 large strides were taken in new directions. An acquisition of 160,000 gross (40,000 net) acres of natural gas production, development and exploration land has provided diversification and cash flow to our Energy Resource Division. Acquisition of a Red Deer-based brewery is allowing a new management team to complete a corporate turnaround and create a successful Canadian brewery with a distinct Western perspective. More details of both expansions are provided in our **Quarterly Report** for the three months ended January 31, 1986.

Since embarking on our new course the book value of the company's assets has increased more than fifteen-fold and its share price has tripled. Furthermore, it is a pleasure to welcome 200 new shareholders to our roster since the last annual report. Both longstanding and new shareholders are invited to participate in the exciting future that lies ahead.

On behalf of the Board,

A handwritten signature in cursive script, reading "Emile L. Beaudry".

Chairman

A handwritten signature in cursive script, reading "Neil Corns".

President

Auditor's Report

To the Shareholders of Matrix Exploration Ltd.:

We have examined the balance sheet of Matrix Exploration Ltd. as at October 31, 1985 and the statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at October 31, 1985 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Hanks & Sells

Auditors

November 8, 1985

(except as to Note 4(b) which is as of November 21, 1985)

Matrix Exploration Ltd.

Balance Sheet

October 31, 1985

ASSETS		
	1985	1984
Current Asset		
Cash	\$ 77	\$ 352
Properties and Development Expenditures		
Mining properties, at cost	79,094	76,429
Oil and gas properties, at cost	726,882	726,637
Deferred exploration and administration - Schedule ..	333,775	319,901
	<u>1,139,751</u>	<u>1,122,967</u>
Organization and Registration Costs	8,555	8,455
	<u>\$1,148,383</u>	<u>\$1,131,774</u>

LIABILITIES		
	1985	1984
Current Liabilities		
Accounts payable and accrued liabilities	\$ 4,445	\$ 9,923
Shareholders' Loans (Note 2) ..	<u>102,112</u>	<u>80,025</u>
	<u>106,557</u>	<u>89,948</u>
Contingencies (Note 3)		

SHAREHOLDERS' EQUITY

Share Capital		
Authorized		
15,000,000 common shares without nominal or par value		
Issued and fully paid		
2,943,278 common shares ..	1,193,758	1,193,758
Deficit	<u>(151,932)</u>	<u>(151,932)</u>
	<u>1,041,826</u>	<u>1,041,826</u>
	<u>\$1,148,383</u>	<u>\$1,131,774</u>

Approved by the Board:

Pat Gormi

Director

Emile L. Beaudry

Director

Matrix Exploration Ltd.

Statement of Changes in Financial Position

Year Ended October 31, 1985

	1985	1984
Sources of Working Capital		
Advances from shareholders ..	\$22,087	\$11,695
Uses of Working Capital		
Acquisition of mining properties	2,665	1,400
Acquisition of oil and gas properties	245	7,853
Deferred exploration and administration expenditures ..	13,874	11,858
Organization and registration costs	100	200
	<u>16,884</u>	<u>21,311</u>
Increase (Decrease) in Working Capital	5,203	(9,616)
Working Capital (Deficiency), Beginning of Year	(9,571)	45
Working Capital Deficiency, End of Year	<u>\$(4,368)</u>	<u>\$(9,571)</u>

Matrix Exploration Ltd.

Schedule of Deferred Exploration and Administration

Year Ended October 31, 1985

	1985	1984
Exploration		
Balance, beginning of year ...	\$218,250	\$218,250
Additions - land consulting ..	3,820	-
Balance, end of year	<u>222,070</u>	<u>218,250</u>
Administration		
Balance, beginning of year ...	101,651	89,793
Additions		
Legal and audit fees	5,513	8,353
Registrar and transfer fees ..	2,605	2,117
Office expenses	1,336	888
Listing fees	600	500
	<u>10,054</u>	<u>11,858</u>
Balance, end of year	<u>111,705</u>	<u>101,651</u>
	<u>\$333,775</u>	<u>319,901</u>

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Mining properties

Mining properties are valued at the acquisition cost of the claim plus related exploration and development costs. As the company is in the development stage, all administrative costs related to mining activities are deferred. The deferred costs, including administrative costs, will be amortized against future production from the mining properties on the unit-of-production basis. If a mining claim is subsequently abandoned, all associated capitalized costs are written off.

Oil and gas properties

The company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs would normally include acquisition costs, geological costs, administrative costs associated with exploration and development activities, and costs of drilling both productive and non-productive wells. No gains or losses will be recognized upon the sale or disposition of properties except under circumstances which results in the major disposals of reserves. Plant and production equipment will be recorded

at cost. With the commencement of production, depletion and depreciation will be provided using the unit-of-production method based on proven, recoverable reserves of oil and gas.

Organization and registration costs

As the company is in the development stage, all organization and registration costs have been deferred and will be amortized against future operations.

2. SHAREHOLDERS' LOANS

Shareholders' loans consist of non-interest bearing advances with no fixed terms of repayment. The company continues to be dependent on the controlling shareholders for operating advances to meet ongoing obligations.

3. CONTINGENCIES

Realization of mining properties is dependent upon discovery of ore bodies in commercial quantities or their profitable disposition. To date, properties represented by these deferred expenditures are substantially unexplored. The company is in the exploratory stage of the development of oil and gas reserves, and, accordingly, all exploration expenditures to date have been deferred. The recovery of these expenditures is dependent upon the success of future operations.

4. SUBSEQUENT EVENTS

- (a) On September 5, 1985, the company's Directors approved the acquisition of certain assets from Allarco Energy Ltd., a company which currently owns 63% of the outstanding common shares of the company. This transaction, which has not been reflected in these financial statements, is scheduled to close prior to December 31, 1985 subject to regulatory approvals (which were received on October 16, 1985) and shareholder agreement as to a proposed removal of the limitation on the number of shares the company is authorized to issue. Details of the transaction are as follows:

Assets to be purchased

Oil and gas properties

Producing	\$2,866,400
Non-producing	
Reserved	370,000
Non-reserved	1,856,000
Other	15,000
	<u>\$5,107,400</u>

Consideration to be given

Assumption of bank loan	\$ 800,000
Issuance of 14,358,000 common shares	
(at \$.30 per share)	4,307,400
	<u>\$5,107,400</u>

Producing and reserved assets' values were determined, as at September 1, 1985, by Coles Nikiforik Pennell Associated Ltd., Consulting Engineers.

The bank loan to be assumed by the company is to be secured by the above-mentioned assets, carries interest at bank prime rate (10.0% at October 31, 1985) plus ½ of 1% and is repayable in blended monthly payments of \$22,000.

- (b) On November 21, 1985, the company's Directors approved the acquisition of the invested capital of Rocky Mountain Brewing Corporation ("Rocky") from Principal Group Ltd., a company which is related to the company through common ownership. This transaction, which has not been reflected in these financial statements, is scheduled to close prior to December 31, 1985 subject to regulatory approvals, shareholder agreement as to a proposed removal of the limitation on the number of shares the company is authorized to issue, and the satisfactory evaluation of Rocky by the company's Directors. If these conditions are not satisfied by December 31, 1985, the agreement may be terminated.

Subject to the satisfactory evaluation of Rocky by the company's Directors, the consideration to be paid by the company will be 44,500,000 common shares (more or less) at \$0.30 per share, for a total value of \$13,350,000 (more or less).

The net result of issuing approximately 44,500,000 common shares to Principal Group Ltd. and 14,358,000 common shares to Allarco Energy Ltd. (described in Note 4(a)) in consideration for these two transactions would be to give Principal Group Ltd. and Allarco Energy Ltd. approximately 72% and 26% ownership of the company, respectively.

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MATRIX INVESTMENTS LIMITED

FORMERLY MATRIX EXPLORATION LTD.

MEMBER OF THE
PRINCIPAL
— GROUP OF COMPANIES —

ANNUAL REPORT

For the year ended October 31, 1985